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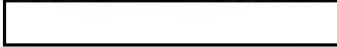
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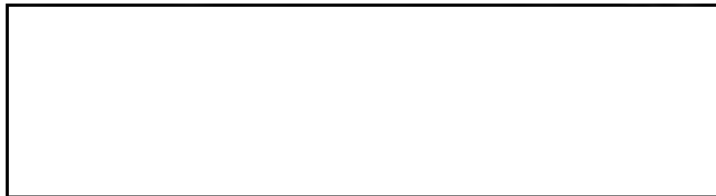


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LAOS: The Lao Communists apparently intend to use some allied prisoners as bargaining chips to exert pressure on Washington and Bangkok.

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[redacted] the Communists will continue to hold captive beyond the prisoner exchange deadline of June 4 [redacted] US and Thai prisoners, particularly those captured after the February 1973 cease-fire agreement. US civilian contract pilot Emmet Kay is the only American prisoner to fall within the post-agreement category and the only one the Pathet Lao have admitted holding.

The [redacted] does not indicate that additional US prisoners are presently being detained. Another four Americans, however, are believed to have been captured in Laos prior to the agreement, and 314 are listed as missing in action.

[redacted] the Communists plan to link the release of these prisoners to the cessation of US aerial reconnaissance flights over Lao territory, to the disbanding of [redacted] intelligence organizations in the twin capitals of Vientiane and Luang Prabang, and to the dissolution of [redacted] bases.

[redacted] apprehension on the part of the Pathet Lao that the US and Thailand do not intend to comply fully with the provisions of the 1973 Lao Accords. These fears probably stem from the Communists' recognition of their own violation of the accords.

[redacted] Heavy stress is placed on the cessation of overflights along the eastern trail

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Moreover, [redacted]
[redacted] personnel captured after the cease-fire agree-
ment constitute proof of continued US and Thai "ag-
gression" against Laos and that this argument might
be used to counter anticipated allied demands for the
withdrawal of all North Vietnamese troops. [redacted]

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SOUTH VIETNAM: Communist military activity re-
mained higher than normal yesterday. The most signif-
icant action was centered in Binh Duong Province,
where government forces were hit by small-scale local-
ized attacks.

The South Vietnamese Military Region 2 commander
has responded to the Communist attacks in Kontum
Province by ordering air strikes against one of two
Communist-held district towns in the northern part
of the province. In addition, harassing attacks are
being planned against a nearby North Vietnamese base
area in order to divert Communist forces that appear
to be moving toward government positions.

Some South Vietnamese military units, meanwhile,
are being shifted in order to engage main-force
Communist units that pose a threat to government
forces in both the highlands and the provinces north
of Saigon. [redacted]

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USSR-CHINA: A lengthy article in Izvestia on Sino-Soviet relations suggests Moscow hopes to avoid any major flare-up with China prior to the summit meeting with the US.

The article advanced the standard Soviet arguments about China's intransigence and catalogued Moscow's alleged attempts to improve relations. The article claimed that Peking turned down a Soviet offer in June 1973 to hold summit-level talks, but noted that this and all other offers on such matters as a nonaggression pact still stand.

Izvestia also asserted there are "signs" that many Chinese leaders do not support Mao's anti-Soviet policies. Whether or not the Soviets believe this, the allegation that such a faction might eventually come to power could be used to counter arguments that the Soviet leadership should take a tougher line against Peking. The mention of such a faction, however, and the reference to former defense minister Lin Piao will not make it easier for the present Chinese leadership to deal leniently with the Soviet helicopter crew China has detained since March 14.

The article was signed by a regular and not particularly prestigious commentator on Sino-Soviet affairs, but the frequent references to the directives of the Central Committee probably were designed to give it a more authoritative ring. As such, it may have been intended to balance the emotional anti-Chinese articles on the helicopter incident of March 14 that appeared in Red Star and Literary Gazette last week. Those articles and the earlier, mildly threatening language of the third Soviet protest note to the Chinese raised the possibility that Moscow might be preparing to use the helicopter incident for an anti-Chinese campaign.

The day after the Izvestia article appeared, the Soviets appealed to the International Red Cross for assistance in securing the release of the helicopter crew. This was the first time the Soviets

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had asked an international body for aid in dealing with the Chinese. The appeal provides further evidence the USSR has decided that the helicopter incident should be handled in a way that will not aggravate tensions along the Sino-Soviet border.

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USSR-CSCE: The Soviets may be wavering in their determination to hold the final stage of the European Security Conference in July. Soviet CSCE envoy Mendelevich reportedly asked his Norwegian counterpart how the West would feel if the present (second) phase was recessed until autumn. Mendelevich was careful to maintain that the Soviets still prefer a July date for the final stage and that his inquiry represented only "contingency planning," which it probably was.

The Soviets have persistently advocated a rapid conclusion to CSCE, but their negotiating posture has been rigid since the talks resumed after an Easter recess. The conference is now stalemated on issues of "freer movement" of people and ideas, and much work remains to be done on other matters, including some key principles.

Western delegations have taken the position that the timing and level of the concluding phase should depend on the results of the current negotiations. Even if Soviet concessions are forthcoming, they may be too late to enable the West Europeans to reach agreement on a finale in July.

The Soviets probably would still like to hold the conference in July, but Mendelevich's remarks suggest that they may not be ready to offer sufficient concessions to make this a realistic possibility. The concessions demanded by the West touch sensitive areas and are bound to be controversial in Moscow. Recent leadership changes in West Germany and France may have added to Soviet caution. At the least, Mendelevich's remarks may have been intended to convince Western representatives that the Soviets are not negotiating under time pressure.

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USSR-ARGENTINA: The Soviets are making a major effort to improve relations with Argentina. Economics Minister Gelbard received red-carpet treatment during his visit to Moscow last week. He met with top Soviet leaders, and his stay was given prominent treatment in the Soviet media. Gelbard's visit was also the occasion for an announcement that President Peron had accepted an invitation to visit the Soviet Union. The Soviets, moreover, obtained an Argentine expression of interest in entering some form of association, as yet undetermined, with CEMA.

The discussions centered on expanding economic relations, including the completion of a \$75-million contract for Soviet turbines for the Salto Grande hydroelectric project. Moscow has offered credits repayable over 10 years at 4.5 to 5.5 percent, which is below commercial interest rates, to cover the purchase.

Negotiations are continuing for Soviet participation in several other projects, including a fisheries complex, a steel mill, and power projects. The Soviets reportedly also agreed to purchase 100,000 metric tons of Argentine meat, as well as rice and fruits. The value of these contracts could total \$200 million--about seven times the annual Soviet purchases of Argentine goods in the past few years.

The USSR views the economic agreements as a vehicle for promoting closer ties with Argentina, and they could serve as a precedent for a similar movement in Soviet relations with other Latin American countries. Moscow probably believes that US influence may be waning in some South American countries, and that opportunities exist for expanding its own influence in the area. Improved relations with Argentina, as with Peru, could help overcome the setback in Chile and prove that Moscow's "peace program" is capable of producing good results in Latin America. [REDACTED]

JAPAN-CHINA: Final ratification of the Sino-Japanese air agreement by the Japanese Diet on May 15 has opened the way for further improvement in bilateral relations.

Both sides gained political advantage from the air agreement. Peking has clearly stayed ahead of Moscow in strengthening ties with Tokyo as a result of the air agreement. China recently offered to sell Japan a significant amount of oil on a long-term basis, while Japanese negotiations with the Soviets over investment in developing Siberian oil resources continue to drag on.

Even before the air agreement was achieved, economic relations between China and Japan were booming, with trade running more than 50 percent over that of the previous year. Trade reached a record \$2 billion in 1973.

Tokyo has gained useful leverage for dealing with Moscow as a result of the air agreement. The Soviets cannot help but be concerned that Japan and China are drawing closer together. Tokyo will seek to exploit this concern, especially in a variety of economic negotiations that are now under way for Japanese investment in developing Siberian resources.

Domestically, Prime Minister Tanaka has gained one of his major political objectives and undercut domestic criticism of his government. The right-wing Seirankai group of the Liberal Democratic Party, which was using conservative opposition to the air agreement to attack Tanaka's leadership, has already found its influence diminished as a result of its failure to stop the treaty.

As for Taiwan, Tokyo is hopeful that some form of an air link can be restored. Taipei may be waiting for an expected Japanese cabinet reshuffle after the Upper House elections on July 7--in which Ohira will

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probably depart as foreign minister--before it responds to Tokyo's overtures. Even if air ties are resumed soon, however, there may be some lasting economic damage, because many Japanese investors will be more cautious in the future.

Both sides have gained political advantage from the air agreement. Peking has established an important precedent by insisting that Japan refuse to recognize Taiwan's China Air Lines as a national flag airline. Peking can use this denial of Taipei's sovereignty as a precedent in future negotiations with other countries that want civil air ties with China but are reluctant to break off flights to Taiwan. Conversely, the precedent of this agreement would permit other countries to argue that they could maintain private air service with Taiwan after negotiating a governmental aviation agreement with Peking.

A Japanese delegation was set to leave for Peking on May 15 to complete negotiations on a fisheries agreement, which will be followed by a maritime pact. The Japanese announced early this week that they would soon begin work on a Japanese draft of a treaty of peace and friendship, but negotiation of this pact will be a long process.

It is improbable that the common desire for improved commercial and other relations will lead to significantly closer political ties between the two countries. While the major emphasis in the current Chinese approach to Japan is positive, there are signs of continuing Chinese wariness toward Japan, such as attacks in the Chinese media on the right-wing Seirankai

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INDIA: Since early April, New Delhi has contracted for 1.1 million tons of foreign grain because of the poor spring harvest. India is concentrating its purchases in the US wheat market, where relatively low prices and ready availabilities prevail. Wheat purchases from the US already total nearly 900,000 tons--for shipment starting in June--and are expected to rise to a million tons over the next few weeks. The USSR is unwilling at this time to go beyond the 2-million-ton wheat loan committed last fall.

Indian grain imports contracted or delivered so far this year total 3.5 million tons. The government's subsidized distribution program probably will require imports of 4 to 5 million tons this year, compared with 4.2 million tons last year.

The US embassy estimates the spring wheat harvest, which normally constitutes about a quarter of domestic grain production, at 22.5 million tons--2.4 million less than last year and 3.9 million tons less than two years ago. Poor weather and irrigation disruptions owing to energy shortages reduced wheat yields.

Nationalization of the wheat trade last year also adversely affected the crop. Despite excellent sowing conditions, wheat acreage barely exceeded last year's because some farmers switched from wheat to more profitable crops, thus interrupting the trend of large annual increases in wheat acreage that had prevailed since the mid-1960s.

In connection with India's immediate food problems, the ten-day-old rail strike is hampering the internal distribution system, but limited supplies are getting through on trains being operated by paramilitary, mobilized reserves, and non-strikers. It appears that the government will likely break the strike by simply refusing to negotiate unless the strike is called off, and by threatening strikers with the loss of their jobs.

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BURMA: Growing labor unrest is causing concern in the Burmese government. During the past several weeks, strikes or other disturbances have taken place at five factories north of Rangoon, and there are indications that the unrest may spread to plants in the capital. Workers are alarmed by the increasing gap between wages and prices, and most of the strikes center on demands for larger rations of rice.

Thus far, the government has been able to end most of the disturbances through a conciliatory approach. It has promised the strikers that their demands will be met, and reportedly will announce soon that the rice distribution to state employees will be more than doubled.

The government's strategy may calm the situation, at least temporarily, but the poor state of the economy could lead to further trouble. Until the recent unrest, strikes had been rare in Burma, but success in having their grievances met may encourage the workers to make other demands.

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PORTUGAL - PORTUGUESE GUINEA: Negotiations for a cease-fire between Lisbon and the insurgent movement in Portuguese Guinea will begin in London on May 25, according to an announcement by the rebel radio. The talks reportedly were agreed upon during a meeting on May 16 in Dakar, Senegal, between Portuguese Foreign Minister Soares and rebel Secretary General Pereira.

The announcement follows by less than a week a rebel offer to negotiate, on condition that Lisbon recognize the "right of independence" for the African territories. In a statement following the Dakar meeting, Soares said that Lisbon would "loyally accept all the consequences" of self-determination in Portuguese Guinea--implying acceptance of possible independence. Despite Soares' failure to include the other territories, the statement apparently was enough to meet the rebels' condition.

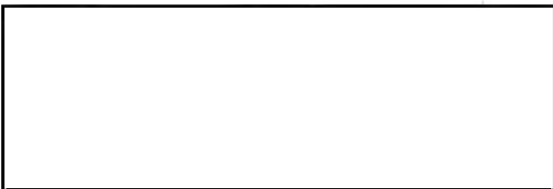
The announcement is a major breakthrough in the long military stalemate in the territory, and the chances for a cease-fire appear good. Beyond that, however, the two sides still have to work out the details of Portuguese Guinea's future relationship with Lisbon. Lisbon probably would not be averse to giving up Portuguese Guinea, because its political and economic interests in the territory are negligible. The manner in which this is done is important, however, because it could complicate Lisbon's relations with Angola and Mozambique, with which it wishes to retain close ties because of profitable economic interests there.

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